OCEAN CEMENT

OCEAN CEMENT & SUPPLIES LTD. ANNUAL REPORT 1968

CONTENTS Page

Financial Summary and Review	3
President's Report to the Shareholders	4
Statements of Income and Retained Earnings	7
Consolidated Balance Sheet—December 31, 1968	8-9
Statement of Source and Application of Funds	10
Auditors' Report to the Shareholders	10
Summary of Capital Expenditures, 1968 and 1969	15
10 Year Summary of Financial Statistics	16

OCEAN CEMENT & SUPPLIES LTD. ANNUAL REPORT 1968

DIRECTORS

A. B. CHRISTOPHER, Vancouver, B.C.
Chairman, Nelsons Laundries Limited

MARK COLLINS, Vancouver, B.C.
President, Smith Lithograph Co. Limited

GORDON FARRELL, Vancouver, B.C.
Chairman, Ocean Cement & Supplies Ltd.

WM. F. FOSTER, Vancouver, B.C.
President, Ocean Cement & Supplies Ltd.

A. F. McALPINE, Vancouver, B.C.
Retired, formerly B.C. Branch Supervisor,
The Royal Bank of Canada

FRANK M. McMAHON, Vancouver, B.C.
Chairman, Westcoast Transmission Co. Ltd.

JOHN D. MILNE, London, England
Director, Associated Portland Cement
Manufacturers Ltd.

ROBERT G. ROGERS, Vancouver, B.C.
President & Chief Executive Officer,
Crown Zellerbach Canada Ltd.

R. IAN ROSS, Victoria, B.C.
President & Managing Director,
The Butchart Gardens Ltd.

COL. THE HON. CLARENCE WALLACE, C.B.E.,
Vancouver, B.C.
President, Burrard Dry Dock Co. Ltd.

REGISTERED OFFICE

North foot of Columbia Street, Vancouver 4, B.C.

OFFICERS

GORDON FARRELL, Chairman of the Board

WM. F. FOSTER, President

R. E. HASKINS, Vice-President

DONALD E. SMITH, Vice-President

J. BRUCE BUCHANAN, Vice-President

J. E. BUERK, Vice-President

ROBERT A. FRAMPTON, Secretary-Treasurer

AUDITORS

PRICE WATERHOUSE & CO., Vancouver, B.C.

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY
Vancouver, Victoria, Toronto, Montreal

The Annual Meeting will be held in the Board Room of Hotel Vancouver, Vancouver, B.C. on April 30, 1969 at 10:30 a.m.

Seen above is the business section and inner harbour of the City of Victoria. Together with neighbouring municipalities its population is approaching the 200,000 mark and is the second largest market area served by the Company. The green docks in the harbour indicate the location of one of the two Company depots in this city.

In 1968 the City of Vancouver, in cooperation with the merchants in two blocks of downtown Granville Street, embarked upon a programme to make an older part of the city more attractive to shoppers. The favourable acceptance of this renovation has resulted in plans to continue the project in 1969. The Company supplied the coloured concrete for these sidewalks.

FINANCIAL SUMMARY AND REVIEW

	1968		1967	
	Amount	Per Share	Amount	Per Share
Sales of Products and Services	$31,837,746	$	$28,915,811	$
Operating Income (before the following)	7,266,129		7,138,339	
Depreciation	2,763,312		2,451,311	
Income Taxes	2,700,000		2,420,000	
Profit from Operations	1,802,817	1.75	2,267,028	2.20
Profit on Disposal of Capital Assets	215,655	.21	350,551	.34
Profit for the Year	2,018,472	1.96	2,617,579	2.54
Dividends Paid	1,081,710	1.05	1,030,200	1.00
Working Capital	5,851,381	5.68	5,199,137	5.05
Shareholders' Equity	25,015,078	24.28	24,078,316	23.37
Additions to Capital Assets	3,182,129		4,026,947	
Number of Shareholders	1,177		1,386	
Number of Employees	1,180		1,178	

PRESIDENT'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the twelfth Annual Report of the Company, for the year ended December 31, 1968 together with the financial statements and your Auditors' report thereon.

Page 7 of this report shows the consolidated statement of income for the year 1968, with comparative results for 1967. I would like to draw your attention to the following figures, and comment on them individually.

Sales of products and services:

The increase of 10% in this figure to $31,837,746 reflects the continuing demand for basic construction commodities in the markets served by your Company. This net gain over 1967 reflects a mixture of price and volume improvements, and the inclusion of volumes for the recently acquired concrete products operations in Kitimat, Terrace and Prince Rupert.

Greater Vancouver continues to be the major market, and the only one which has required any significant volume of construction materials in 1968. Vancouver Island, the Interior, and Northern centres of British Columbia continue to require only minor quantities by comparison, but these markets should show some improvement during the current year.

Profit from combined operations before the undernoted items:

Although sales increased 10%, the gross return has improved by only 5% to $7,212,723. Increased labour rates in 1968, together with other escalating costs, have materially affected the manufacturing and transportation costs of our products. These have been only partially offset by productivity gains arising from recent plant improvements, and the slight increase in the actual volume of business and prices.

Estimated Income Taxes:

In 1968, taxes on income from operations amounted to $2,700,000, or an effective tax rate of 60%.

Due to a change in the rate and method of assessment, Provincial Mining Taxes (which are based on income and included in the above figures) increased from $100,000 in 1967 to $415,000 in 1968. However, most of this increase will not be "allowed" as an expense in calculating Federal Income Taxes. We have no Federal status as a "mine" when it comes to receiving any special tax concessions accorded to that industry.

It appears that this industry in British Columbia, and this company in particular, is caught in an approach to taxation which has not been co-ordinated between the two levels of government. Although we intend to continue our appeal for relief from this unjustifiable situation, full provision has been made in the accounts for the taxes which would become payable under existing legislation and assessing practices.

Profit from Operations:

For the year 1968, profits after taxes have reduced to $1,802,817, or $1.75 per share — down from $2.20 per share in the prior year. Of this 45¢ per share reduction in profits, approximately 36¢ (or 80%) is related to the imposition of additional taxes on income.

Loss on Sale of Investment in Clayburn-Harbison Ltd.:

As indicated in the mid-year report to shareholders, in June of 1968 the Company sold its remaining 40% interest in Clayburn-Harbison Ltd. The proceeds from this sale fell short of the recorded

book value of this investment by $135,772, which amount is shown in the statements as a loss. Profits from other disposals of a capital nature totalling $351,427 have more than offset this loss.

During 1968, considerable geological work has been carried out on the Company's limestone and gravel reserves. These present surveys are being directed towards a definition of the long term position, and to guide us in developing these properties in a manner acceptable to the public and profitable to the Company.

In the fall of 1968, the Company took a 50% interest in a concrete prestressing plant serving the Vancouver market. Although this plant has not been busy in recent months your Directors are encouraged by the opportunities facing this specialized industry. An aerial photograph of this plant is shown on page 14, accompanied by some remarks on this and other expenditures of a capital nature for 1968 and 1969.

Your Directors are intent on establishing a line of diversification or expansion which will broaden the earnings base of the Company and for this purpose, investigation of other operations and products is being carried out. As in most companies, many opportunities to diversify have been presented to the management. With the exception of the above mentioned concrete prestressing operation, none of those examined to date have been considered suitable.

This year, 1969, got off to a poor start due to the extreme weather conditions, but the outlook for the balance of the year remains bright. Certain large projects which have been delayed are now reaching final planning stages, and could start this year. Included in these projects are "Pacific Centre", "Project 200", "Georgia Viaduct", and "Sea Island Bridge".

I am pleased to announce that a contract has been concluded covering the export of substantial quantities of cement over a ten year period beginning in 1969. In order to service this contract it will be necessary to spend approximately $3 million at the Bamberton Cement Plant to increase the finish grinding and cement storage capacities up to a level matching the presently installed burning capacity. Due to the volumes involved, this contract should prove to be profitable, after giving consideration to the required capital expenditure.

During 1968 the Company declared dividends amounting to $1.05 per share and the quarterly dividend of 20¢ per share was increased to 25¢ per share in the final quarter. Your Directors anticipate that this quarterly rate can be maintained, augmented by an annual extra dividend in those years where business conditions warrant.

Late in 1968, Mr. B. M. Brabant left the Board of Directors, and they would like to record their appreciation for the depth of experience in this industry which he brought to the Company, and also to wish him success in his new endeavours. Since the year end, his place on the Board has been filled by Mr. G. H. D. Hobbs, Chairman of Western Canada Steel Ltd.

For the eighth year in a row the level of activity in the Company has increased, and your Directors would like to compliment the employees for the competent manner in which they have met these demands. This attitude and energy of the staff is vital to the continuing success of the Company, and this Industry in the forthcoming years.

Vancouver, B.C.
April 14, 1969.

Submitted on behalf of the Board,
Wm. F. Foster, President.

Shown above is a storm sewer under construction using 60-inch diameter concrete pipe. The City of Vancouver purchased and installed 2,900 feet of pipe for this project in the Kitsilano area, of which 500 feet were "jacked into place" through a tunnel.

From time to time products are utilized for purposes other than those for which they were intended. In this instance, chimney blocks were laid alongside other masonry units to make an attractive design over a shopping centre entrance.

A four lane concrete road leading to the University of British Columbia was built in 1968 for the Provincial Department of Highways. The Company supplied 10,000 cubic yards of True-Mix concrete containing approximately 2,600 tons of cement.

OCEAN CEMENT & SUPPLIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31 1968

(with corresponding figures for the year ended December 31 1967)

INCOME	1968	1967
Sales of products and services	$31,837,746	$28,915,811
Income from combined operations before the undernoted items	$ 7,212,723	$ 6,941,087
Income from investments	150,598	120,619
Income from joint venture	—	190,000
	7,363,321	7,251,706
DEDUCT —		
Provision for depreciation and depletion	2,763,312	2,451,311
Directors' fees and other remuneration	97,192	113,367
	2,860,504	2,564,678
Income before income taxes	4,502,817	4,687,028
DEDUCT —		
Estimated income taxes —		
Currently payable	2,420,000	1,827,478
Applicable to future years	280,000	592,522
	2,700,000	2,420,000
Income from operations	1,802,817	2,267,028
Gain on disposal of capital assets, after deducting, in 1968, a loss of $135,772 on disposal of investment in an associated company	215,655	350,551
Income for the year	$ 2,018,472	$ 2,617,579
RETAINED EARNINGS		
Balance at beginning of year	$19,236,408	$17,649,029
Income for the year, above	2,018,472	2,617,579
	21,254,880	20,266,608
DEDUCT —		
Dividends — $1.05 per share ($1.00 in 1967)	1,081,710	1,030,200
Balance at end of year	$20,173,170	$19,236,408

OCEAN CEMENT & SUPPLIES L

CONSOLIDATED BALANCE S

(with corresponding fig

ASSETS

	1968	1967
CURRENT ASSETS:		
Cash	$ 192,310	$ 544,791
Short term investments, at cost which approximates market	2,526,782	2,187,507
Trade and other accounts receivable	4,625,505	3,671,862
Inventories of products and supplies, at cost which is lower than market	2,747,860	2,967,551
Prepaid expenses	65,942	108,590
	10,158,399	9,480,301
SPECIAL REFUNDABLE TAX	70,923	240,567
INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES, at cost	1,730,000	1,356,912
CAPITAL ASSETS:		
Land, buildings, plant and equipment, etc., at cost	51,437,469	49,191,410
Less —		
Accumulated provisions for depreciation and depletion	30,044,695	28,159,710
	21,392,774	21,031,700
	$33,352,096	$32,109,480

APPROVED ON BEHALF OF THE BOARD:

GORDON FARRELL, Director

WM. F. FOSTER, Director

). AND SUBSIDIARY COMPANIES

ET AS AT DECEMBER 31 1968

as at December 31 1967)

LIABILITIES

CURRENT LIABILITIES:	1968	1967
Accounts payable and accrued liabilities	$ 2,160,210	$ 2,413,137
Dividend payable January 2 1969	463,590	412,080
Income taxes payable	1,435,659	1,180,340
Other taxes payable	247,559	275,607
	4,307,018	4,281,164
DEFERRED INCOME TAXES APPLICABLE TO FUTURE YEARS, arising primarily from capital cost allowances claimed for income tax purposes in excess of depreciation provided	4,030,000	3,750,000
SHAREHOLDERS' EQUITY:		
Share capital —		
Authorized:		
1,250,000 common shares without nominal or par value		
Issued:		
1,030,200 shares	4,841,908	4,841,908
Retained earnings — per statement attached	20,173,170	19,236,408
	25,015,078	24,078,316
	$33,352,096	$32,109,480

COMMITMENTS AND CONTINGENT LIABILITIES:

Commitments for capital expenditures, together with commitments for future acquisitions of shares in associated companies, amount to approximately $2,700,000 at December 31 1968.

The company is contingently liable as a guarantor of loans of associated companies in the amount of $330,000.

OCEAN CEMENT & SUPPLIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31 1968

(with corresponding figures for the year ended December 31 1967)

	1968	1967
SOURCE OF FUNDS:		
Operations —		
Income from operations	$1,802,817	$2,267,028
Charges which did not involve an outlay of current funds:		
Provision for depreciation and depletion	2,763,312	2,451,311
Estimated income taxes applicable to future years	280,000	592,522
	4,846,129	5,310,861
Special refundable tax	169,644	(69,741)
From disposal of capital assets	409,210	429,964
From sale of investment in associated company	521,100	—
	5,946,083	5,671,084
APPLICATION OF FUNDS:		
Additions to capital assets (including, in 1967, those arising from the purchase of subsidiary companies)	3,182,129	4,026,947
Investment in and advances to associated companies	1,030,000	700,000
Dividends — $1.05 per share ($1.00 in 1967)	1,081,710	1,030,200
	5,293,839	5,757,147
Increase (decrease) in funds	652,244	(86,063)
Working capital at beginning of year	5,199,137	5,285,200
Working capital at end of year	$5,851,381	$5,199,137

AUDITORS' REPORT

1075 WEST GEORGIA STREET
VANCOUVER 5, B.C.
March 5 1969

To the Shareholders, Ocean Cement & Supplies Ltd.:

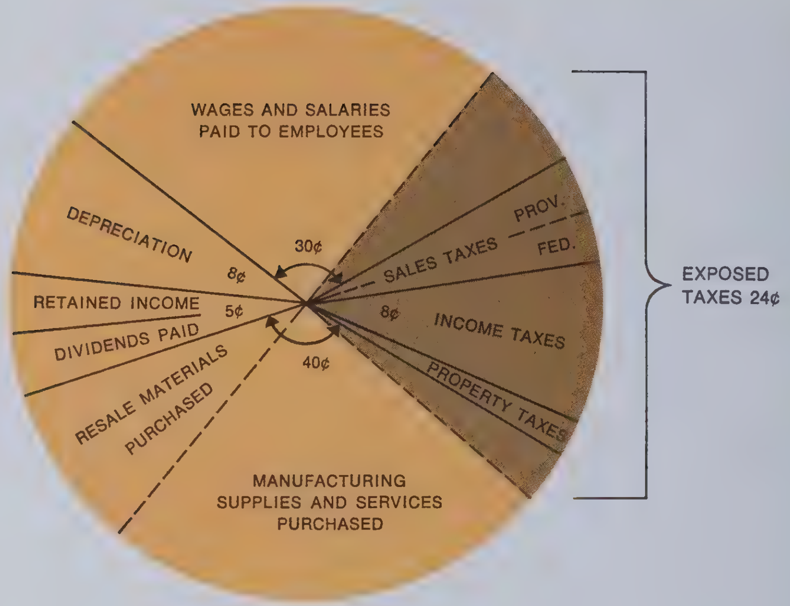
We have examined the consolidated balance sheet of Ocean Cement & Supplies Ltd. and subsidiary companies as at December 31 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

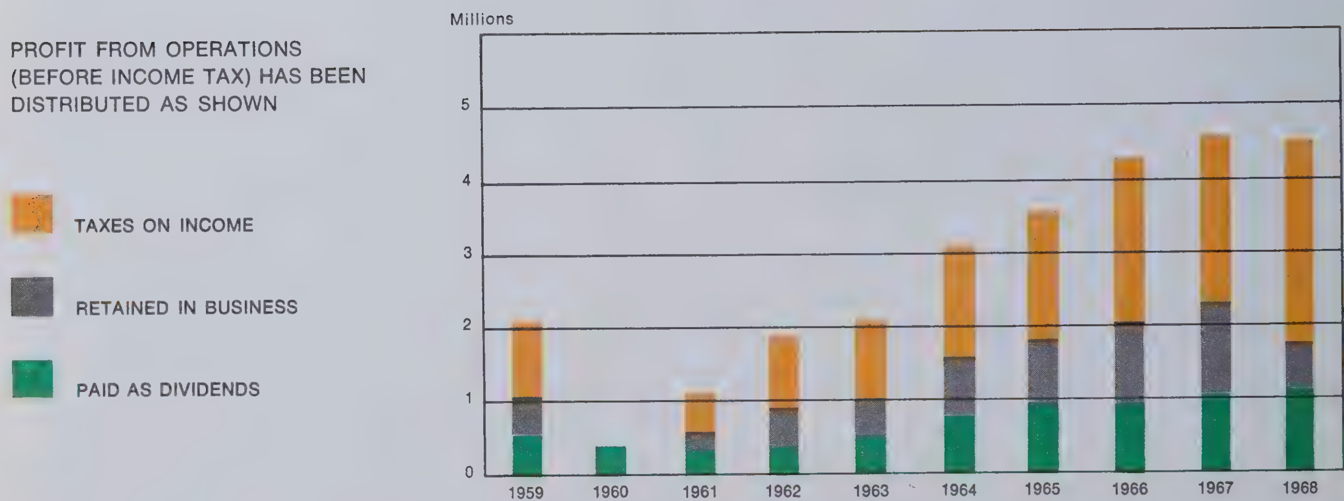
PRICE WATERHOUSE & CO., Chartered Accountants.

Martello Towers, in the West end of Vancouver, is one of the many high rise apartment buildings which the Company has supplied with masonry products and True-Mix concrete.

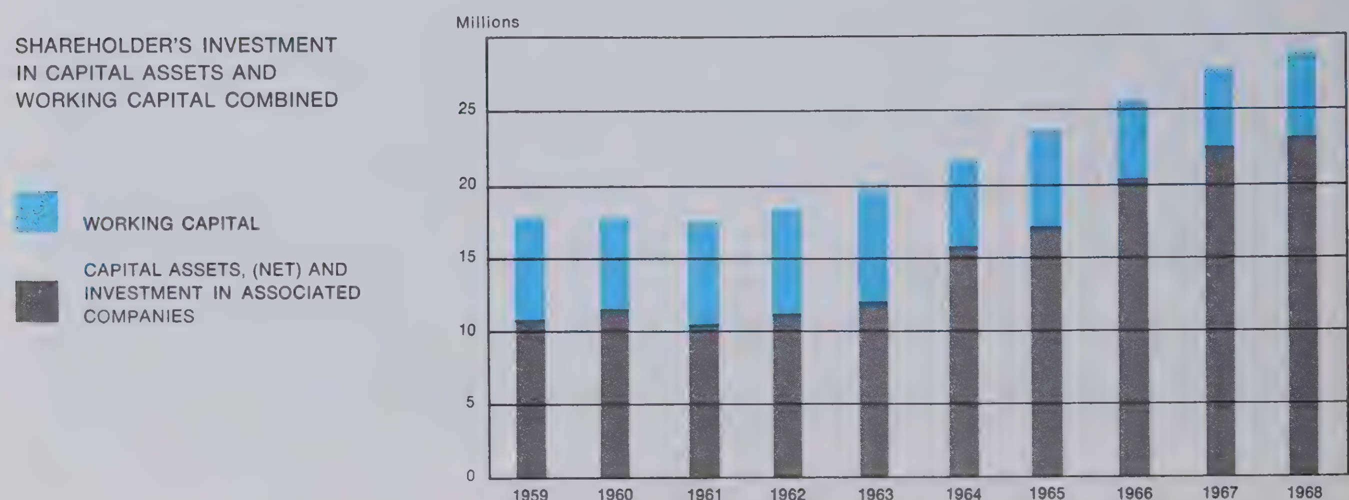
IN 1968 A DOLLAR OF SALES WAS DISTRIBUTED IN THIS PATTERN



PROFIT FROM OPERATIONS (BEFORE INCOME TAX) HAS BEEN DISTRIBUTED AS SHOWN



SHAREHOLDER'S INVESTMENT IN CAPITAL ASSETS AND WORKING CAPITAL COMBINED



The Board of Trade Tower is one of two office buildings making up the Columbia Centre in downtown Vancouver. True-Mix concrete was supplied to this complex, which will later include the construction of a hotel.

Lightweight blocks, masonry cement and True-Mix concrete were supplied to Acadian Park Apartment and multiple dwelling units located at the University of British Columbia.

The Company recently took delivery of another 2,100 ton capacity bulk cement barge similar to the one seen in the photograph at the left.

The crew at Granville Island Depot has worked for more than 2,000 days (nearly 5½ years) without incurring a lost-time injury. The President, Mr. Wm. F. Foster presented them with their 2,000 day pennant.

The photograph above shows exploratory drilling in progress at the Limestone Quarry near the Bamberton Cement Plant on Vancouver Island. An extensive programme is being carried out to evaluate reserves.

An aerial photograph of the prestressed concrete plant in which an interest was acquired in 1968. It is situated in the Municipality of Richmond, adjoining Vancouver, and is located on a 22 acre site on the South arm of the Fraser River. The proximity to navigable water gives freedom in the size of components that can be shipped and the market area which can be economically served by water. It is also close to rail and highways for distribution of products by land.

ADDITIONS TO CAPITAL ASSETS

1968

Capital expenditures in 1968 totalled $3,182,129 of which $1,269,730 was spent on mobile equipment replacements or additions.

At Bamberton cement plant, the installation of two more electrostatic precipitators has proceeded on schedule. These will come into operation in the spring of 1969 and will effectively eliminate the escape of stack dust from that time on.

An auxiliary aggregate processing plant with a capacity of 200 tons per hour was installed at Mary Hill to augment its production rate. New scow loading facilities were built at the Pitt River Quarry in order to increase the production and shipping capacity of this plant.

At Prince George, an "all weather garage" was completed and now provides heated storage during the winter for mobile equipment, eliminating costly warm up periods in extreme weather conditions. More efficient and economical production of aggregates was achieved at the Kamloops operation by the installation of new crushing equipment.

Properties and buildings adjoining the Marpole Depot in Vancouver were acquired to allow for future expansion. The aggregate reserves of the Producers sand and gravel plant near Victoria were increased by the purchase of adjacent property.

1969

In order to service an export contract for cement, work is now under way at the Bamberton plant to build three silos which will provide additional storage space for cement, and also to install an additional 1,750 horsepower finish mill. These two projects should be fully completed by the spring of 1970 at a cost of approximately $3,000,000. As a result of this expenditure, all elements of this plant will be basically "in balance" with the rated burning (kiln) capacity.

The marine division will take delivery of two 850 horsepower steel tugs, one 52 feet long and the other 61 feet. Three flat steel barges are now being built each with a load capacity of 3,500 tons. Another 2,100 ton capacity bulk cement barge was recently put into service.

At North Vancouver, scow berths will be constructed to permit the present self-unloading aggregate barges to service this depot. Storage and reclaiming facilities will be built to accommodate the large shipments of aggregates.

The manufacturing capacity of crushed rock in the greater Vancouver area will be increased by the installation of a jaw crusher, feeders, screens and other ancillary equipment at the Pitt River Quarry.

The Company has engaged architects to design an office building for the Vancouver operating, marketing and financial staff. This will be built in the Marpole area on property presently owned by the Company, and will replace several outdated and poorly located offices, two of which will be lost in the near future due to Civic or Government development projects.

Normal expenditures will be made to replace older mobile equipment units in order to maintain the effectiveness of our fleet of vehicles.

At Victoria, a second concrete batching plant will be built to increase the capacity of the Wharf Street depot. Additional screening and conveying equipment will be installed to increase production and the range of aggregates available to this market.

It is estimated that expenditures for completion of capital work now in progress and including the above projects will exceed $7,000,000, but the amount spent in 1969 will depend on the stages of completion of some of these projects at the end of the year.

ACCIDENT PREVENTION

Accident prevention is an important programme pursued by the Company. Every possible precaution is taken to provide safe working conditions for all employees, and supervisors are constantly on the alert to ensure safe working habits are maintained. The constant attention to safety has resulted in an impressive safety record being established over the past few years.

In 1968, while employees worked 2,253,587 manhours, an increase of over 50,000 manhours from the previous year, the number of lost-time injuries decreased from 17 to 14 and the accident frequency rate was also lowered. For the first time, the 2,000 day mark (nearly 5½ years) was reached by four divisions of the Company who worked that length of time without a lost-time injury. Twenty-two other divisions also completed the year without having any lost-time injuries.

The President's Trophy for safety was won by the Bamberton Cement Plant and four aggregate plants received Certificates of Achievement from the Provincial Department of Mines and Petroleum Resources.

COMPARATIVE FINANCIAL STATISTICS

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Operating income (before the following)	7,266,129	7,138,339	6,441,197	5,520,450	4,649,799	3,508,109	3,094,162	2,667,091	2,127,198	4,047,840
Depreciation	2,763,312	2,451,311	2,196,950	1,917,024	1,509,583	1,410,817	1,252,479	1,459,020	1,880,046	1,905,957
Income taxes	2,700,000	2,420,000	2,230,000	1,800,000	1,600,000	1,070,000	961,000	628,500	165,607	1,071,011
Profit from operations	1,802,817	2,267,028	2,014,247	1,803,426	1,540,216	1,027,292	880,683	579,571	81,545	1,070,872
(per share)	1.75	2.20	1.96	1.75	1.49	1.03	.88	.58	.08	1.07
Profit on disposal of capital assets	215,655	350,551	144,416	163,687	48,732	172,907	675,646	272,218	375,050	87,570
(per share)	.21	.34	.14	.16	.05	.17	.67	.27	.37	.09
Profit for the year	2,018,472	2,617,579	2,158,663	1,967,113	1,588,948	1,200,199	1,556,329	851,789	456,595	1,158,442
(per share)	1.96	2.54	2.10	1.91	1.54	1.20	1.55	.85	.45	1.16
Dividends paid	1,081,710	1,030,200	978,690	824,160	721,140	501,600	351,120	300,960	376,200	601,920
(per share)	1.05	1.00	.95	.80	.70	.50	.35	.30	.37½	.60
Working capital	5,851,381	5,199,137	5,285,200	6,262,856	6,045,076	7,256,613	7,587,164	7,176,949	6,625,204	7,620,064
(per share)	5.68	5.05	5.13	6.08	5.87	7.23	7.56	7.15	6.60	7.60
Shareholders' equity	25,015,078	24,078,316	22,490,937	21,310,964	20,168,011	19,070,703	18,372,104	17,166,895	16,934,587	16,876,107
(per share)	24.28	23.37	21.83	20.69	19.58	19.01	18.31	17.11	16.88	16.82
Additions to capital assets	3,182,129	4,026,947	5,306,617	3,760,495	4,617,470	2,889,778	2,523,044	1,036,375	2,964,033	1,427,898

NOTE: *To present comparable figures for all years, 1960 and prior have been adjusted where applicable by the charges to Earned Surplus in 1961. The lower depreciation in 1961 resulted from disposals of major assets and a change in the basis of recording depreciation.*

OCEAN CEMENT

Lithographed in Canada by Smith Lithograph Company Limited